



**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

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Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive
Framework and to Examine the Integration of
Greenhouse Gas Emissions Standards into
Procurement Policies.

R.06-04-009

**PRE-WORKSHOP COMMENTS OF SIERRA PACIFIC POWER COMPANY
(U 903 E) ON ALLOWANCE ALLOCATION ISSUES**

October 31, 2007

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I. INTRODUCTION

Sierra Pacific Power Company (Sierra) now responds to the invitation extended in the "Administrative Law Judge's Ruling Requesting Comments And Noticing Workshop On Allowance Allocation Issues" (Ruling) issued on October 15, 2007, to file comments on questions contained in the Ruling.

Sierra appreciates the opportunity to comment on policy issues related to the distribution of emission allowances if a cap and trade system is adopted. Sierra is a multi-jurisdictional utility (MJU) that provides retail electric service to northern Nevada and northeastern California on an integrated basis. Most of Sierra's generating resources used to serve California customers are located in Nevada and states outside of California, and thus are imported into California. Sierra serves California customers with both internal generation and with resources that it procures under contract to suppliers in Nevada and other states. California represents roughly 6% of Sierra's system load.

Because of the unique and complex issues associated with serving California customers with an integrated, interstate system, Sierra is not prepared at the present time

to respond to all of the detailed questions presented in the Ruling, though it reserves the right to do so in reply comments to follow the workshop on these issues. Nevertheless, Sierra is prepared to respond to Question 1 as it relates to principles that should guide the Commission's recommendations to the California Air Resources Board (ARB) on how to allocate greenhouse gas (GHG) emission allowances to MJUs with California customers.

II. SIERRA'S COMMENTS ON EVALUATION CRITERIA

In the Ruling, the Commission recognizes that evaluation criteria may help it to analyze issues associated with allocation of emission allowances and presents principles developed by ARB's Market Advisory Committee (MAC) as an example. Sierra agrees that guiding principles are a very useful tool when developing a regulatory model of such complexity as an interstate cap and trade system for GHG emission allowances. The implications of either the load-based approach recommended by the Commission in the past, or the first seller approach recommended by the MAC, are so far-reaching that it is difficult to predict the eventual impacts of such regulation on the business of an MJU without more information. Accordingly, Sierra prefers at this time to obtain more specifics on how the Commission would design such a system before responding to the detailed questions posed in the Ruling. In the meantime, Sierra offers the following evaluation criteria of its own to guide the development of rules appropriate to the unique position as an MJU.

- Q1. Please comment on each of the criteria listed by the MAC. Are these criteria consistent with AB 32? Should other criteria be added, such as criteria specific to the electricity and/or natural gas sectors? In making trade-offs among the criteria, which criteria should receive the most weight and which the least weight?

Response to Question 1:

Sierra concurs with the MAC that California should strive to distribute allowances consistently with the fundamental objectives of cost-effectiveness, fairness and simplicity. In particular, of the principles enunciated by the MAC, and copied by the Commission in the Ruling, Sierra would assign the most weight to (a) (“Reduces the cost of the program to consumers, especially low-income consumers”) and (h) (“Helps to ensure market liquidity”). These two principles are consistent with obligations imposed on Sierra by Nevada law and the Public Utilities Commission of Nevada relating to least cost ratemaking.

In addition, Sierra proposes the following evaluation criteria specific to its needs as an MJU:

1. Any allowance allocation system should avoid imposing on out-of-state customers the costs of California compliance. Any price signals from an allocation method should insulate out-of-state ratepayers.
2. Initially, allowances should be distributed freely based upon current emissions. Any auctioning of allowances should be phased in gradually to allow time to invest in lower carbon emission technologies.
3. Since it is not possible to trace the origin of electricity delivered to California from an MJU’s out-of-state resources, allowances should be distributed accordingly to the same pro rata share of GHG emissions from the MJU’s multi-state system that California load bears to Sierra’s system load.
4. GHG emissions reductions per megawatt hour (MWh) of energy delivered to an MJU’s California customers that are achieved at facilities outside of California

should qualify as tradable allowances eligible to offset emissions apportioned to California load.

5. GHG emissions reductions associated with renewable facilities used to comply with the California RPS should qualify as tradable allowances eligible to offset emissions apportioned to California load.
6. Whether or not GHG emissions reductions qualify as tradable allowances, an allowance allocation scheme should be flexible enough to permit an MJU to apportion such reductions to its compliance obligation in California under either a load based or first seller approach.
7. California should accept offsets from outside California with no geographic restrictions. At a minimum, California should accept offsets generated in the same states from which California counts GHG emissions under AB 32.
8. The allowance allocation scheme must take into account demand growth in Sierra's system load.
9. Regulatory oversight is necessary to prevent market power in the resale of allowances.
10. If an auction scheme is adopted it needs to ensure liquidity to enable compliance entities that are short to buy allowances in the marketplace at a stable price.
11. If an auction scheme is adopted it should also guard against rate shock by transitioning gradually.

Sierra believes that these evaluation criteria should be utilized as the Commission moves forward in formulating not just recommendations for distributing allowances but also when making any comprehensive proposal encompassing an entire cap and trade

system. Again, Sierra reserves the right to respond to the other Questions contained in the Ruling at a later date, and in particular when more information on how the Commission would implement an allocation scheme becomes available.

III. CONCLUSION

Sierra looks forward to working with the Commission and Energy Division staff to implement the worthy goals of AB 32 compatibly with its obligations under both California and Nevada law. Sierra believes that incorporating the evaluation criteria presented above will facilitate those goals while avoiding potential conflicts with Nevada regulatory requirements.

Dated: October 31, 2007



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the “Pre-Workshop Comments Of Sierra Pacific Power Company (U 903 E) On Allowance Allocation Issues” on all known parties to R.06-04-009 by transmitting an e-mail message with the document attached to each party named in the official service list as required in this Rulemaking. I have also served this same document on the California Energy Commission in Docket No. 07-OIIP-01 as directed in the October 15, 2007 California Public Utilities Commission Ruling in R.06-04-009. Those parties without email addresses or from which I received a delivery failed message were served by first-class mail with postage prepaid.

Executed on October 31, 2007 at Sacramento, California.

/s/

Eric Janssen

R.06-04-009
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